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E.O. 11652: N/A
TAGS: ECON, CA
SUBJECT: GOC POLICY INITIATIVE: WRAP UP

REF: A. OTTAWA 3857 B. OTTAWA 4095 C. OTTAWA 4213

1. SUMMARY: AT SEPTEMBER 8 PRESS CONFERENCE, GOC
MINISTERS GAVE CONCLUDING DETAILS OF PREVIOUSLY ANNOUNCED
SPENDING/TAX CHANGES AND ANNOUNCED INCREASED SPENDING
ON ECONOMIC DEVELOPMENT PROGRAMS. BULK OF CHANGES WILL
BE EFFECTIVE IN FY 1979/80. PACKAGE REDUCES SPENDING
BY CDOLS 500 MILLION THIS FISCAL YEAR AND BY CDOLS
2 BILLION NEXT FROM PRELIMINARY SPENDING PROJECTIONS BUT
NET IS ONLY 150 MILLION AND 700 MILLION, RESPECTIVELY,
BELOW FY 78/79 BUDGET AND ESTIMATE FOR FY 79/80.
PACKAGE WILL NOT HAVE SIGNIFICANT NET IMPACT ON GOC
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FINANCING REQUIREMENTS OR ON GNP GROWTH IN EITHER
FISCAL YEAR. IGNORING FIRST QUARTER 1978 REAL GNP
GROWTH OF ONLY 2.9 PERCENT, FINANCE MINISTER CHRETIEN
SAID THAT GROWTH OF 4.5-5 PERCENT ANNUAL RATE IN FINAL
THREE QUARTERS OF 1978 WOULD BE CONSISTENT WITH GOC'S
INTERPRETATION OF ITS BONN SUMMIT COMMITMENT TO TRY TO
ACHIEVE UP TO 5 PERCENT ANNUAL RATE. HE SEEMED TO IMPLY

THAT GOAL COULD BE MET WITHOUT FURTHER POLICY CHANGES. EXTENSIVE JUGGLING OF EXPENDITURE AND FUNDAMENTAL RESTRUCTURING OF SOCIAL PROGRAMS, TO FAVOR LOWER INCOME GROUPS WHILE TIGHTENING STANDARDS, WILL REQUIRE PARLIAMENTARY APPROVAL. CHRETIEN PROMISED TO INTRODUCE REVISED BUDGET BEFORE YEAR END.

2. WHETHER NEW GOC SPENDING POLICIES WILL HAVE POLITICAL IMPACT DESIRED BY LIBERAL PARTY REMAINS TO BE SEEN. PACKAGE IS COMPLEX, AND PIECEMEAL--AND INITIALLY ILL- PREPARED--PRESENTATION HAS RAISED LEVEL OF SKEPTICISM. OPPOSITION HAS GREETED CONCLUDING ANNOUNCEMENT WITH CHALLENGE TO RECALL PARLIAMENT EARLY TO DEAL WITH COUNTRY'S ECONOMIC PROBLEMS. COMMENTATORS, BOTH IN PRESS AND ON TV, CONTINUE TO QUESTION LEGITIMACY OF CLAIMED SPENDING CUTS WHILE ARGUING THAT LIBERALS MUST TAKE BLAME FOR FAILURE OF PAST POLICIES IF DRASTIC CHANGE IS NEEDED NOW. END SUMMARY.

3. AT PRESS CONFERENCE SEPT 8, FINANCE MINISTER CHRETIEN AND TREASURY BOARD PRESIDENT ANDRAS UNVEILED FURTHER DETAILS OF ECONOMIC POLICY INITIATIVE LAUNCHED BY PM TRUDEAU AUGUST 1 (OTTAWA 3857) AND SUMMARIZED IMPLICATIONS OF PACKAGE FOR GOC EXPENDITURES, REVENUES AND FINANCING REQUIREMENTS. ORAL STATEMENTS WERE ACCOMPANIED BY VOLUMINOUS DOCUMENTATION GIVING DEPARTMENT- LIMITED OFFICIAL USE

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BY-DEPARTMENT (NEARLY 200 LINE ITEMS) BREAKDOWN OF CHANGES IN PROGRAMS ON SPENDING. BULK OF PROPOSED CHANGES TAKE EFFECT IN FY 1979/80.

4. MAIN NEW PROPOSAL WAS FOR INCREASED SPENDING OF CDOLS 300 MILLION ON ECONOMIC DEVELOPMENT PROGRAMS. OF TOTAL AMOUNT, CDOLS 235 MILLION WOULD BE ALLOCATED TO INDUSTRIAL SUPPORT PROGRAMS AND MAJOR CAPITAL PROJECTS (E.G., DEVELOPMENT OF NEW MARKETS, EXPLOITATION OF NEW TECHNOLOGY AND SUPPORT FOR INDUSTRIAL RESTRUCTURING EFFORTS). MINISTER OF INDUSTRY, TRADE AND COMMERCE (IT&C) HORNER IS TO RECEIVE INPUT FROM BUSINESS, LABOR AND PROVINCIAL GOVERNMENTS IN FORMULATING SPECIFIC MEASURES TO BE IMPLEMENTED. REMAINING CDOLS 65 MILLION WOULD PROVIDE INCREASED SUPPORT FOR TOURISM AND RESOURCE INDUSTRIES, PARTICULARLY FORESTRY.

5. GOC ALSO GAVE DETAILS OF PROPOSED REDUCTION IN FEDERAL TRANSFER PAYMENTS TO PROVINCES, TO WHICH CHRETIEN HAD ALLUDED IN HIS AUGUST 24 SPEECH (SEE OTTAWA 4213). REDUCTION OF CDOLS 370 MILLION IN

FY 1979/80 WOULD AFFECT SPECIAL PURPOSE PROGRAMS,
SUCH AS BILINGUALISM DEVELOPMENT, AS WELL AS GENERAL
TRANSFER PROGRAMS SUCH AS EQUALIZATION PAYMENTS.
SOME OF PROPOSED CHANGES WILL REQUIRE RENEGOTIATION
OF CONTRACTUAL AGREEMENTS BETWEEN GOC AND PROVINCES.
FEDERAL/PROVINCIAL CONSULTATIONS ON THESE ISSUES
WILL TAKE PLACE IN COMING WEEKS.

6. BUDGETARY IMPACT: TOTAL PACKAGE CALLS FOR
SPENDING REDUCTION OF CDOLS 635 MILLION IN FY 1978/79
AND OF CDOLS 2.9 BILLION IN FY 1979/80. OFFSETTING
THESE REDUCTIONS WOULD BE EXPENDITURE INCREASES
TOTALLING CDOLS 135 MILLION IN FY 1978/79 AND
CDOLS 910 MILLION IN FY 1979/80, BRINGING NET
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REDUCTION IN PLANNED EXPENDITURE TO CDOLS 500 MILLION

IN CURRENT FISCAL YEAR AND TO CDOLS 2.0 BILLION IN FY 19780. GOC NOW ESTIMATES THAT ITS TOTAL SPENDING WILL BE CDOLS 48.3 BILLION IN FY 1978/79 AND CDOLS 52.6 BILLION IN FY 1979/80. REACTING TO CRITICS, ANDRAS EMPHASIZED THAT CUTS ENVISAGED IN FY 1979/80 WERE NOT MADE FROM ARBITRARY BASE. HE INDICATED THAT BUILT-IN INCREASE IN SPENDING RESULTING, INTER ALIA, FROM HIGHER INTEREST PAYMENTS ON FEDERAL DEBT, INDEXATION OF SOME TRANSFERS TO PROVINCES AND INDIVIDUALS, WOULD HAVE GENERATED EXPENDITURES OF ABOUT CDOLS 54.6 BILLION, AN UNACCEPTABLY HIGH 13 PERCENT RISE OVER FY 1978/79 LEVEL. AT 8.9 PERCENT, INCREASE IN IPENDING FOR FY 79/80 IS NOW ESTIMATED TO BE ABOUT 2 PERCENT BELOW NOMINAL GROWTH IN GNNP-REDUCING RELATIVE SIZE OF GOVERNMENT SECTOR IN LINE WITH NEW LIMITED OFFICIAL USE

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POLICY STANCE.

7. FINANCING REQUIREMENT: AT TIME OF LAST APRIL'S BUDGET, GOC HAD FORECAST FINANCING REQUIREMENT OF CDOLS 11.5 BILLION IN FY 1978/79, AN ESTIMATE WHICH INCLUDED EXPENDITURE REDUCTION OF CDOLS 350 MILLION BELOW PRELIMINARY PROJECTIONS. CHRETIEN NOTED, HOWEVER, THAT FINANCING REQUIREMENT WAS SUBSEQUENTLY REVISED UPWARD TO CDOLS 12 BILLION DUE TO HIGHER UNEMPLOYEMNT INSURANCE PAYMENTS AND LOWER THAN ESTIMATED TAX REVENUES. CURRENT POLICY PACKAGE AIMS AT CDOLS 500 TOTAL SPENDING REDUCTION, CDOLS 150 MILLION OF WHICH IS ADDITIONAL TO THAT INCORPORATED INTO APRIL BUDGET. THUS, ESTIMATED FINANCING REQUIREMENT FOR FY 1978/79 IS NOW CDOLS 11.9 BILLION (CDOLS 12 BILLION LESS 150 MILLION)OR 400 MILLION HIGHER THAN ORIGINAL ESTIMATE.

8. CHRETIEN/ANDRAS JOINT STATEMENT INDICATES THAT FINANCING REQUIREMENT FOR RR 19/80 HAD BEEN FORECAST AT CDOLS 10.2 BILLION AND WAS BASED ON BUDGETED EXPENDITURES SS CDOLS 53.3 BILLION. SERIES OF RECENT ANNOUNCEMENTS CUT FY 79/80 BUDGET ESTIMATE BY CDOLS 700 MILLION. NET EFFECT OF REALLOCATION OF SPENDING ON SOCIAL BENEFITS, INCREASED SPENDING ON JOB CREATION AND ECONOMIC DEVELOPMENT AND TAX CHANGES, ANNOUNCED OVER PAST FIVE WEEKS, IS TO INCREASE FINANCING REQUIREMENT FOR THESE PROGRAMS BY CDOLS 220 MILLION. HOWEVER, GOC ESTIMATES THAT NET EFFECT OF PACKAGE IS TO REDUCE OVERALL FY 1979/80 FINANCING REQUIREMENT BY CDOLS 480 MILLION TO CDOLS 9.7 BILLION.

9. TO ESTIMATE IMPACT OF POLICY CHANGES

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ANNOUNCED SINCE AUGUST 1 ON FINANCING REQUIREMENT, APPROPRIATE EXPENDITURE PROJECTION IS CDOLS 54.6 BILLION. WITHOUT POLICY CHANGE, FINANCING REQUIREMENT WOULD HAVE BEEN CDOLS 11.5 BILLION. IMPLEMENTATION OF PACKAGE IS ESTIMATED TO REDUCE THAT REQUIREMENT BY CDOLS 1.8 BILLION.

10. IMPACT ON GNP GROWTH: SEPTEMBER 8 STATEMENT NOTES THAT REDUCTION IN PLANNED PUBLIC SPENDING AND NEW EMPHASIS ON ECONOMIC DEVELOPMENT SHOULD BOOST BUSINESS CONFIDENCE, THAT REDISTRIBUTION OF SOCIAL BENEFITS WILL HELP CONSUMPTION SPENDING, AND THAT THESE MEASURES WILL HAVE A "DIRECT IMPACT" ON JOBS AND PRICES. GOC ADDED, HOWEVER, THAT OVERALL STANCE OF FISCAL POLICY WOULD BE ADDRESSED IN BUDGET WHICH WOULD BE INTRODUCED INTO PARLIAMENT BEFORE END OF THIS YEAR.

11. CANADA'S SUMMIT COMMITMENT: DURING PRESS CONFERENCE CHRETIEN INTERPRETED CANADIAN COMMITMENT AT BONN SUMMIT OF "UP TO 5 PERCENT" REAL GROWTH IN 1978 AS MEANING THAT REAL GNP WOULD ADVANCE AT ANNUAL RATE OF 4.5 - 5 PERCENT IN SECOND, THIRD AND FOURTH QUARTERS. SPECIFICALLY, HE SAID THAT "WHEN WE WERE IN BONN, THERE WAS NOTHING WE COULD DO ABOUT THE FIRST QUARTER, IT WAS PAST. BUT WE SAID IN BONN WE EXPECTED FOR THE REST OF THE YEAR 1978, THE PRIME MINISTER AND I, THAT GROWTH WOULD BE AS PREDICTED. WE SAID UP TO 5 PERCENT--4.5 - 5 PERCENT--FOR THE SECOND, THIRD AND FOURTH QUARTERS." CHRETIEN INDICATED THAT WHILE GNP GROWTH WAS DISAPPOINTING IN THE FIRST QUARTER, DUE TO DEVELOPMENTS IN THE U.S., THE SECOND QUARTER GROWTH WAS A HEALTHY 4.5 PERCENT (ACTUALLY 4.4 PERCENT) AND THAT A SIMILAR PERFORMANCE COULD BE EXPECTED IN THE THIRD QUARTER--IMPLYING THAT GNP GROWTH WOULD APPROACH LEVELS IN THE REMAINDER OF 1978

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CONSISTENT WITH GOC'S BONN COMMITMENT WITHOUT FURTHER CHANGES IN POLICY.

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12. COMMENT: GOVERNMENT HAS BENT OVER BACKWARD TO SUPPLY MAXIMUM DETAIL ON EXPENDITURE REDUCTIONS AND REALLOCATIONS WHICH HAD BEEN ANTICIPATED BY PREVIOUS MINISTERIAL STATEMENTS. DELUGE OF DATA PRESENTED AT PRESS CONFERENCE REFLECTS DETERMINED EFFORT TO NEUTRALIZE PROGRESSIVE CONSERVATIVE (PC) CLAIM THAT TRUDEAU WAS MAKING "PHONEY" CUTS. SPECIFICITY OF LATEST ANNOUNCEMENT IS ALSO UNDOUBTEDLY DESIGNED TO RESTORE SEMBLANCE OF COHERENCE AND ORDER TO GOVERNMENT, IN CONTRAST TO SEEMING HAPHAZARD MANNER OF RECENT ANNOUNCEMENTS.

13. HOWEVER, MUCH MORE WILL BE HEARD ABOUT MOST OF THESE MEASURES WHEN THEY COME UNDER PARLIAMENTARY SCRUTINY AFTER HOUSE OF COMMONS RECONVENES OCTOBER 10.
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TERMS OF DEBATE WILL HAVE CHANGED SUBSTANTIALLY, SINCE GOVERNMENT WILL NOW HAVE TO DEFEND ITSELF AGAINST CRITICISM ZEROING IN ON SUBSTANCE OF SPECIFIC

CHANGES. MANY COULD TURN OUT TO BE CONTROVERSIAL AS THEY SIGNIFICANTLY ALTER STRUCTURE OF SOME GOC PROGRAMS (UNEMPLOYMENT INSURANCE COMPENSATION PAYMENTS, SOCIAL BENEFITS). PC CRITICISM WILL BE BLUNTED SOMEWHAT BY NEWLY CONSERVATIVE COLORS OF LIBERAL GOVERNMENT ITSELF. HOW EFFECTIVE GOC'S ANNOUNCEMENTS WILL BE IN PROJECTING IMAGE OF THRIFTY, HUMANE, EFFECTIVE GOVERNMENT REMAINS TO BE SEEN.

14. ELECTORAL IMPACT OF ALL THIS IS ANYBODY'S GUESS HOWEVER, INITIAL REACTION OF COMMENTATORS--BOTH PRESS AND TV--WAS SKEPTICAL. SEPTEMBER 9 GLOBE AND MAIL CARRIED SUMMARY OF SPENDING AND REVENUE MEASURES ON FRONT PAGE, WITH ONE ARTICLE EMPHASIZING SIZE OF BUDGET DEFICIT DESPITE CUTS AND ANOTHER QUESTIONING LEGITIMACY OF GOC METHODOLOGY IN CLAIMING REDUCTIONS FROM PROJECTED EXPENDITURE THAT WERE NEVER REFLECTED AS BUDGET ESTIMATES BY GOC'S OWN ADMISSION. OTHER COMMENTATORS TERMED FISCAL STRINGENCY REVERSAL OF TRADITIONAL LIBERAL PARTY POLICY--CONCLUDING THAT IF DRASTIC CHANGE IS NEEDED NOW, THEN PAST POLICY MUST HAVE BEEN DEFICIENT. OPPOSITION RENEWED CALLS FOR EARLY RETURN OF PARLIAMENT TO ADDRESS ECONOMIC PROBLEMS.
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